

AR01




787-2444

Full PD



annual
report
1965

ALLIED
TOWERS
MERCHANTS
LIMITED



Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Alli0084_1965

Fourth Annual Report

for the year ended December 31, 1965

ALLIED TOWERS MERCHANTS LIMITED

DIRECTORS

WILLIAM L. ATKINSON*	JOSEPH L. HOCKENOS
IRVING BECKERMAN*	CHARLES KENT
MYRLE W. BOOK*	JOSEPH LOKASH*
CARL C. COLE	LOUIS LOKASH
J. IAN CROOKSTON	WILLIAM MANOLSON
MAXWELL GOLDHAR	ALVIN B. ROSENBERG, Q.C.
SAMUEL GOTFRID, Q.C.	WILLIAM N. THOMPSON
HON. SALTER A. HAYDEN, Q.C.	RAPHAEL D. WOLFE*

*Members of Executive Committee

OFFICERS

Chairman of the Board	HON. SALTER A. HAYDEN, Q.C.
Chairman of the Executive Committee	WILLIAM L. ATKINSON
President and Chief Executive Officer	MYRLE W. BOOK ✓
Controller	HUGH SIMPSON
Secretary	NORMAN J. P. MELNICK ✓

SOLICITORS

MCCARTHY AND MCCARTHY	Toronto, Ontario
-----------------------------	------------------

AUDITORS

CLARKSON, GORDON & Co.	Toronto, Ontario
-----------------------------	------------------

TRANSFER AGENTS AND REGISTRAR

NATIONAL TRUST COMPANY LIMITED	Toronto, Montreal, Winnipeg and Vancouver
--------------------------------------	--

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE	Toronto, Ontario
--	------------------

HEAD OFFICE

110 ORFUS ROAD, TORONTO 19, ONTARIO

DIRECTORS' REPORT

TO OUR SHAREHOLDERS:

The fiscal year ended December 31, 1965 was one of progress and achievement. For the first time the Company operated at a profit and entered 1966 in a much stronger position.

SALES AND EARNINGS

Total sales including sales of leased departments were \$51,580,375, an increase of \$5,872,190 or 12.8% over 1964. Sales of Company-operated departments were \$34,386,948, an increase of \$4,710,804 or 15.9% over the preceding year. These sales gains are evidence of the excellent consumer response to the Company's merchandise assortments and values and are particularly gratifying when compared with the increase in total Canadian Department Store sales of 6.1%.

After provision for depreciation and amortization of \$772,749, the net profit for the year was \$737,229, which compares with a net loss in 1964 of \$329,981, an improvement of \$1,067,210. Our ability to bring about this improvement in operating results relates directly to the extensive Company reorganization which was implemented at all levels during the latter half of 1964. After allowing for preference share dividends of \$261,600, earnings were equal to 27¢ per common share.

The reported net profit does not reflect a conditional rental reduction of \$100,000 which is not payable to the Company until early in 1967. No income taxes were payable because of the carry forward for tax purposes of losses from previous years.

FINANCIAL POSITION

As at December 31, 1965, current assets were \$7,079,559 and current liabilities \$3,958,331, leaving net working capital of \$3,121,228, an increase of \$227,459 over the previous year end. This working capital is considered adequate to finance the current volume of sales.

PREFERENCE SHARE DIVIDENDS

Your Directors are very conscious of the arrears of cumulative dividends on the 6% first preference shares which amounted to

\$2.13 per share at January 1, 1966. The Ontario Corporations Act prohibits the payment of dividends so long as a Company is in a deficit position, even though annual dividends are earned. It appears reasonable to expect that your Company will be in a surplus position by the end of 1966. The question of preference share dividends will be reviewed next year in the light of 1966 operating results, the earnings outlook, the Company's financial position and anticipated cash requirements.

IMPROVEMENT TO STORES

During the year an extensive renovation and refurbishing program was carried out in all Company stores which included many department re-locations. The improved department and merchandise layouts, together with new decor and signing, have created a much more convenient and pleasant shopping atmosphere for our customers.

OUTLOOK FOR 1966

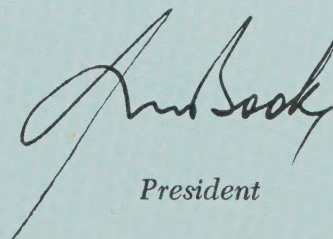
With definite indications that the current economic growth in Canada will continue through 1966, we look forward to further significant gains in sales and earnings this year. We believe our existing units, virtually all of which are located in rapidly developing suburban areas, have a potential for substantially higher sales. Despite a strong upward pressure on many expense categories, particularly salaries, wages and related benefits, we anticipate higher profits, both in aggregate and as a percentage of sales in 1966.

Planning is now underway for additional stores. Market surveys have been, and are being made of sites in growth areas, and it is hoped that more specific expansion plans may be announced in the near future.

APPRECIATION

In conclusion we wish to extend a very sincere thanks to our Employees, Customers and Suppliers, all of whom contributed to making fiscal 1965 a successful year.

March 17th, 1966



President

ALLIED TOWERS MERCHANTS LIMITED

(Incorporated under the laws of Ontario)

AND ITS SUBSIDIARIES

CONSOLIDATED

ASSETS

CURRENT:

	1965	1964
Cash	\$ 452,957	\$ 1,723,067
Trade and sundry accounts receivable	512,857	627,804
Merchandise inventories, at the lower of cost or market	5,674,483	4,470,035
Prepaid expenses, supplies and deposits	439,262	496,198
TOTAL CURRENT ASSETS	<u>7,079,559</u>	<u>7,317,104</u>

INVESTMENTS, AT COST:

5½% note receivable	166,667	166,667
6% mortgage receivable in monthly instalments to 1968	74,737	110,610
	<u>241,404</u>	<u>277,277</u>

FIXED:

Store equipment, at cost	2,212,613	2,156,119
Less accumulated depreciation	740,437	503,474
	<u>1,472,176</u>	<u>1,652,645</u>
Leasehold improvements, at cost less amortization	166,850	140,837
	<u>1,639,026</u>	<u>1,793,482</u>

OTHER:

Deferred store and equipment rentals less amortization (note 1)	910,396	690,075
Store leases, at cost less amortization (note 2)	348,117	338,697
Store opening expenses less amortization		36,462
Other deferred expenses	111,204	113,204
Share capital issue expenses	413,503	413,503
	<u>1,783,220</u>	<u>1,591,941</u>
	<u>\$10,743,209</u>	<u>\$10,979,804</u>

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1965

(with comparative figures for the year 1964)

LIABILITIES

CURRENT:

	1965	1964
Accounts payable and accrued charges	\$ 3,168,217	\$ 3,770,270
Sales and other taxes payable	264,958	303,039
Store fixture purchase contracts, portion payable within one year	248,522	257,302
Store rental deposits, concessionaires	76,634	92,724
9% sinking fund debentures, portion payable within one year	200,000	
TOTAL CURRENT LIABILITIES	<u>3,958,331</u>	<u>4,423,335</u>

LONG TERM LIABILITIES (note 3):

9% sinking fund debentures due January 2, 1970		
less portion payable within one year	800,000	1,000,000
Store equipment purchase contracts, payable in monthly instalments		
to 1969 less portion payable within one year	414,987	681,078
	<u>1,214,987</u>	<u>1,681,078</u>

SHAREHOLDERS' EQUITY:

Capital stock (note 4) —		
Authorized:		
750,000 first preference shares, par		
value \$10 each issuable in series		
3,000,000 common shares, no par value		
Issued:		
436,000 6% cumulative redeemable convertible first preference		
shares, 1962 series, par value \$10 each	4,360,000	4,360,000
1,731,516 common shares	1,843,516	1,843,516
	<u>6,203,516</u>	<u>6,203,516</u>
DEFICIT	633,625	1,328,125
	<u>5,569,891</u>	<u>4,875,391</u>
	<u>\$10,743,209</u>	<u>\$10,979,804</u>

On behalf of the Board:

M. W. BOOK,
Director

W. L. ATKINSON,
Director

See accompanying notes to consolidated financial statements.

ALLIED TOWERS MERCHANTS AND ITS SUBSIDIARIES

STATEMENT OF CONSOLIDATED PROFIT AND LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1965
(with comparative figures for the year 1964)

	1965	1964
Net sales:		
Total store sales	\$51,580,375	\$45,708,185
Less sales of concessionaires	17,193,427	16,032,041
	<hr/>	<hr/>
Net company sales	\$34,386,948	\$29,676,144
	<hr/>	<hr/>
Profit on operations before deducting expenses set out below	\$ 1,693,152	\$ 654,988
	<hr/>	<hr/>
Deduct:		
Interest on sinking fund debentures	90,000	30,000
Depreciation — store equipment	238,944	233,100
Amortization — leasehold improvements	22,025	17,221
— deferred store and equipment rentals	401,666	401,666
— store leases	15,580	14,520
— store opening expenses	36,462	150,230
— other deferred expenses	58,072	54,624
Executive salaries and legal fees	93,174	83,608
	<hr/>	<hr/>
	955,923	984,969
	<hr/>	<hr/>
Profit (loss) for the year (note 6)	737,229	(329,981)
Deficit, beginning of year	1,328,125	998,144
	<hr/>	<hr/>
	590,896	
Add income taxes re prior years	42,729	
	<hr/>	<hr/>
Deficit, end of year	\$ 633,625	\$ 1,328,125
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**STATEMENT OF CONSOLIDATED SOURCE
AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1965**

SOURCE OF FUNDS:

Funds provided from operations —	
Net profit for the year	\$ 737,229
Add charges to operations not requiring an outlay of funds:	
Depreciation — store equipment	238,944
Amortization — leasehold improvements	22,025
— deferred store and equipment rentals	401,666
— store leases	15,580
— store opening expenses	36,462
— other deferred expenses	58,072
Total funds provided from operations	\$1,509,978
Payment on 6% mortgage receivable	35,873
	<u>\$1,545,851</u>

APPLICATION OF FUNDS:

Payments for — store fixtures and equipment (net)	58,475
— leasehold improvements	48,038
— deferred store and equipment rentals	621,987
— store leases	25,000
— other deferred expenses	56,072
— income taxes re prior years	42,729
Reduction of long term liabilities	466,091
	<u>\$1,318,392</u>
INCREASE IN FUNDS DURING THE YEAR	\$ 227,459
WORKING CAPITAL AT DECEMBER 31, 1964	2,893,769
WORKING CAPITAL AT DECEMBER 31, 1965	<u>\$3,121,228</u>

ALLIED TOWERS MERCHANTS LIMITED

AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1965

1. Rentals in respect of two store properties payable over a twelve year term (with an option to purchase at the completion of the term at \$1 each) are being amortized over a period of twenty-five years. In 1965 rental payments amounted to \$267,350 of which \$86,820 was amortized.

Equipment rentals (under lease option agreements) payable over varying periods extending to 1969 are being amortized over a period of ten years. In 1965 rental payments amounted to \$354,637 of which \$314,846 was amortized.

2. Store lease costs are being amortized over a period of twenty-five years.
3. The company has issued to its bankers as collateral security to any bank indebtedness, 6% debentures which are payable on demand, secured by a first floating charge on its undertaking, property and assets. The issue is limited to \$2,000,000.

The 9% sinking fund debentures are secured by a floating charge ranking after the 6% debentures referred to above. Sinking fund instalments are payable at the rate of \$200,000 per annum in the years 1966 to 1969 inclusive. Certain covenants attached to this issue require the maintenance of working capital and current assets at certain minimum levels and limit bank borrowings to \$2,000,000.

Store equipment purchase contracts are payable in monthly instalments for various periods extending to 1969. Current monthly instalments of principal and interest amount to \$25,600.

4. The 6% cumulative redeemable first preference shares, 1962 series, are convertible into common shares on a share for share basis to April 1, 1972. 436,000 common shares have been reserved for issue upon conversion of the outstanding 6% first preference shares.

Arrears of cumulative dividends on the 6% first preference shares amount to \$928,322, including the dividend due January 1, 1966.

During the year 86,000 common shares were reserved to provide for the granting of options to directors and employees, such options to be allocated by the board of directors over a ten year period. Options were granted during 1965 for 60,000 shares at \$1 each exercisable at 20% per year for the next five years, all of which are outstanding at December 31, 1965.

5. The company has leased store and warehouse properties for periods extending to 1975. The annual rentals payable under these leases amount to approximately \$2,088,000. The annual rental payments for store equipment total approximately \$374,000.
6. No income taxes appear to be payable on the profit for the year because of the carry forward for tax purposes of losses from previous years.

AUDITORS' REPORT

To the Shareholders of

Allied Towers Merchants Limited:

We have examined the consolidated balance sheet of Allied Towers Merchants Limited and its subsidiaries as at December 31, 1965 and the statement of consolidated profit and loss and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated profit and loss and deficit present fairly the financial position of Allied Towers Merchants Limited and its subsidiaries as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of consolidated source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and applications of funds of the companies for the year ended December 31, 1965.

Toronto, Canada
March 2, 1966.

CLARKSON, GORDON & Co.
Chartered Accountants

